

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TWO)

Docket No. RM2015-10

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES
IN ANALYTICAL PRINCIPLES (PROPOSAL TWO)
(June 17, 2015)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, relating to the format of the ICRA Report, is labeled Proposal Two and is discussed in detail in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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A Proposed Change for a Unified International Cost and Revenue Analysis Report

OBJECTIVE:

The Postal Service proposes to replace the traditional Imputed and Booked versions of the International Cost and Revenue Analysis (ICRA) report with a single, Unified version.

BACKGROUND:

Since FY08, the Postal Service has filed both a Booked and an Imputed version of the ICRA as part of each year's Annual Compliance Report (ACR). The differences between the two versions arise because the results in the Booked version are adjusted to match the amounts reported in the accounting system for a fiscal year and the Imputed version attempts to estimate the actual economic activity (mail flows) for international transportation and settlements for a fiscal year. For example, footnote 20 on page 90 of the Commission's FY 2013 Annual Compliance Determination describes how the settlement expenses reported in the Booked and Imputed models differ:

Booked Expenses are the reported costs contained in the Postal Service's trial balance for settlement payments. Imputed expenses for settlement payments are calculated using the known rate for each country multiplied by the known units (number of pieces or pounds of mail or both depending on the formula that applies for each country).

The reason for having two versions had to do with timing delays that are permitted under Universal Postal Union (UPU) rules for settlement transactions between the Postal Service and foreign postal administrations. While the Booked

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version tied to the settlement amounts in the Postal Service's financial statements, the Imputed version avoided possible timing delays by using actual volumes and rates to calculate the settlement amounts. Most of the timing delay issue was eliminated in the FY 2012 ICRA with the implementation of the Foreign Payment System (FPS) for inbound revenue, which used an accrual methodology similar to the Imputed methodology. In Order No. 1516, the Commission approved the use of FPS in the ICRA and went on to say:

The Commission considers Postal Service efforts to eliminate differences in reported inbound revenue between the Imputed and Booked versions of the ICRA to be important in improving transparency. Similarly, eliminating differences in reported outbound costs between the Imputed and Booked versions of the ICRA would further improve consistency. The Commission therefore encourages the Postal Service to expeditiously make additional changes that will permit the reporting of financial results for international mail in one version of the ICRA that is consistent with the RPW and the Postal Service's financial statements.

In Docket Nos. ACR 2013 and ACR 2014, (Chairman's Information Request No. 6, Question 6 and Chairman's Information Request No. 1, Question 9, respectively), the Commission followed up by inquiring about the status of reporting a unified ICRA. This proposal completes the changes necessary to report financial results for international mail in one version of the ICRA that is consistent with the RPW and the Postal Service's financial statements.

PROPOSAL:

The proposal incorporates a number of files and calculations from the Imputed version of the ICRA into the Booked version of the ICRA to produce a single Unified version. The current process is to run the Imputed version first and then tie those

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results to other financial statements of the Postal Service. Including the necessary imputations in the Booked version, while maintaining the steps to tie out to the other financial statements, produces a Unified version of the ICRA equivalent for all practical purposes to the former Booked version. Supporting materials relating to this proposal are provided under seal in USPS-RM2015-10/NP1.

RATIONALE:

The necessity of maintaining separate Imputed and Booked versions has diminished as the differences between the two reports have decreased. For each of the last three fiscal years, the differences in both total cost and total revenue between the Imputed and Booked versions have been one percent or less.

Additionally, producing a unified version of the ICRA streamlines the production process for the Postal Service and reduces the number of items for review by the Commission. The Unified version also eliminates the need to distinguish which version is under discussion at a particular time, thereby avoiding potential confusion between the two versions.

IMPACT:

The impact is very small. A cell-by-cell comparison was done between the “A” and “B” Pages of the USPS-FY14-NP2 (Revised 2/5/15) Reports (Booked).xls* and those in the Unified Reports file using an automated tool to identify any differences greater than or equal to 0.01 that are also greater by 1 percent or more and no differences were found. Likewise, using the tolerance described in the prior sentence,

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no differences were found comparing the Unified Reports <ICRA Database> tab with the USPS-FY14-NP2 (Revised 2/5/15) Reports (Booked) <ICRA Database> tab nor with comparing the Unified Reports <Intermediate> Database tab with the USPS-FY14-NP2 (Revised 2/5/15) Reports <ICRA Database> tab.

The small differences that arise from the necessary modifications discussed below can be seen in the non-public Excel file “Attachment 1.xls” filed under seal (as part of USPS-RM2015-10/NP1) which displays comparisons of the “A” Pages as filed in USPS-FY14-NP2 (Revised 2/5/15) Reports (Booked) and the proposed methodology.

Attachment 1 consists of nine tabs: the A Pages Summary, A Pages (md), and A Pages (c) from Reports (Booked) as filed in USPS-FY14-NP2 (Revised 2/5/15) (tab names consisting of report name appended with “ ACR”); the corresponding A Pages arising from the current proposal (tab names consisting of report name appended with “ Unified”); and tabs showing the cell-by-cell differences in the two sets of reports (tab names consisting of report name appended with “ Unified – ACR”). There are no comparisons involving the A Pages from the Imputed Reports filed as USPS-FY14-NP2 (Revised 2/5/15) Reports because those reports are eliminated under this proposal.

As characterized above, the differences can all be seen to be small and only involve volume-variable costs (for reasons described below), and the corresponding Contribution amounts. There are no differences in any of the revenue amounts.

MECHANICS:

In order to precisely agree with dollar amounts reported in the National Consolidated Trial Balance (NCTB) for international cost accounts, preliminary cost

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calculations by country and country group are required. These are the imputed amounts that have been traditionally summarized, and last reported in USPS-FY14-NP2 (Revised 2/5/15) Reports. The analyses by country using the Imputed method are still necessary as the NCTB does not report country-level data. Nearly all of the existing procedures and calculations can be maintained by merely subsuming the imputed calculations into a new tab in Unified Reports (formerly Booked Reports) called “Intermediate.” This sheet is structured to be parallel to the data warehousing sheet currently titled “ICRA Database,” and amounts in the revised ICRA Database are adjusted from the Intermediate sheet. (Prior to this proposed change the results were adjusted from the ICRA Database sheet of the Imputed reports version, Reports.xls*.) Mechanically there were calculations needed for the Booked version that were performed in the Imputed version for domestic cost components that did not vary between the two versions and did not need to be replicated. Thus, there are only two worksheets that have been moved from Imputed reports into the new Booked version:

- CRA staging (which develops domestic mail processing, delivery and other costs) and CS14 staging (which brings domestic transportation costs from the Domestic Tran Calcs workbook into the reports file, organized for direct use). Links to Reports in the Domestic Tran Calcs module were adjusted to reference the new Reports (Unified) workbook.

A minor adjustment to the international transportation cost scaling procedure done on the “tranadj” sheet of the Outbound Calcs workbook is necessary because, in the current USPS-FY14-NP2 design, the adjustment was based on Imputed costs for NSAs. Those Imputed costs are no longer available after the proposed discontinuation

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of the Imputed version; therefore, references to Imputed NSA costs are replaced with Booked results. This difference results in very small changes in the calculated final costs, as described above in the IMPACT section.